

Release

Stock Exchange Listings NZX (MEL) ASX (MEZ)

Meridian delivers strong result – focused on a clean energy future

26 August 2020

Meridian Energy has reported a strong financial outcome for the FY20 year powered by record generation and solid retail sales growth on both sides of the Tasman.

Group EBITDAF¹ increased by 2% to \$854 million. Net profit after tax decreased 48%, reflecting higher depreciation on previously revalued assets and movements in forward prices and rates on financial instruments used to manage risk (non-cash, fair value movements). Underlying net profit after tax² (which removes these fair value movements) decreased by 5%.

Increased retail performance in both New Zealand and Australia supported higher EBITDAF. In addition, Meridian generated a record amount of electricity in New Zealand, supported by improved wind farm availability and lake inflows that were 115% of average.

Ordinary dividends increased by 3% in FY20, however the company has now ceased its capital management programme.

Chief Executive Neal Barclay says “FY20 was another successful year for our Company and we were particularly pleased with the continued growth in our customer businesses. Financially it was a solid year for Meridian with another record EBITDAF result, although net profit after tax was lower. But there are significant challenges on the horizon, particularly the global impact of the COVID-19 pandemic and, the closure of the Tiwai Point Aluminum Smelter. These changes will affect the way in which we operate our business and we are confident we have the team and the strategies to manage through these uncertain times”.

The volume of electricity sold to customers increased by 18% and 24% in New Zealand and Australia respectively. Customer numbers were also well up in both countries.

“Our customer numbers were higher than they were last year, and we also increased our overall customer satisfaction ratings. Our retention rates continued to improve, and our Meridian brand sets the benchmark for customer retention in New Zealand.

“Powershop New Zealand was named Energy Retailer of the Year at the Deloitte Energy Excellence Awards, and Meridian came out on top of the major retailers in Consumer New Zealand’s power satisfaction survey. And in Australia, Powershop was once again named greenest power company by Greenpeace,” Mr Barclay says.

“Throughout the COVID-19 challenge we have maintained full operational capability and we have supported all our customer segments affected by this pandemic. We have worked to find payment solutions that suit customers

¹ EBITDAF is a non-GAAP financial measure comprising of earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges, impairments and gains of losses on sale of assets.

² Underlying net profit after tax is a non-GAAP financial measure comprising net profit after tax adjusted for the effects of changes on fair value of hedges and other non-cash items. A reconciliation between net profit after tax and underlying net profit after tax can be found at the end of this release.

and made sure their power is not unfairly disconnected. We also have not charged any late-payment fees or credit-reminder fees to customers across our brands in New Zealand and Australia,” says Barclay.

Just after financial year end, Rio Tinto announced that it was terminating its electricity supply contract with Meridian Energy.

“Meridian worked with the industry to offer the smelter what we believe was a good deal worth \$50 million per annum from day one, increasing to close to \$60 -70 million per annum over the next three years,” says Barclay.

“Despite our efforts the owners have made the decision to terminate the electricity supply agreement with Meridian in August 2021 and close the smelter. We have engaged with the smelter owners on the possibility of extending the closure period from one year to four years, At this stage we are not aware if an extended closure proposition is acceptable to them.

“Rio Tinto’s decision is hugely disappointing for the Smelter workforce and the Southland community and this outcome is not one that Meridian would have chosen. However, given the age of the facility, a decision to close was probably inevitable within this next decade in any event.

“NZAS leaving New Zealand creates an imperative for our country to use it as an opportunity to further reduce our emissions and our reliance on fossil fuels. Meridian will work with government, industries and our customers to support the future electrification and decarbonisation of the New Zealand economy,” says Barclay.

“The electricity sector is a big part of the solution to our emissions challenge. As the market adapts to this new future we will see the market harness the renewable generation and transmission assets required to power growth in the number of electric vehicles on our roads and the electrification of stationary energy uses, ending our country’s current dependence on fossil fuels. Meridian is focussed on helping the country move rapidly to that future,” adds Barclay.

Rio Tinto’s exit from New Zealand also means that the Meridian Energy Board has made the tough decision to defer the construction of its Harapaki wind farm in the Hawke’s Bay.

“While the business case for Harapaki is very sound, the market needs time to adjust to Rio Tinto’s decision to exit New Zealand. We’re still confident that we’ll build Harapaki in the future,” says Barclay.

Meridian’s full integrated report can be found [here](#).

Underlying net profit after tax reconciliation (\$M)		
Financial year ended 30 June	2020	2019
Net profit after tax	176	339
Underlying adjustments		
<u>Hedging instruments</u>		
Net change in fair value of electricity and other hedges	113	(58)
Net change in fair value of treasury instruments	48	63
Premiums paid on electricity options net of interest	(20)	(17)
<u>Assets</u>		
(Gain)/loss on sale of assets	-	(3)
Impairment of assets	58	5
Total adjustments before tax	199	(10)
<u>Taxation</u>		
Tax effect of above adjustments	(58)	4
Underlying net profit after tax	317	333

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